Appendix A to New Rule V

(1**) Derivative transactions**.

(a) **Non-credit derivatives** – A bank shall calculate the credit exposure to a counterparty arising from a derivative transaction by one of the following methods.

(i) **Conversion Factor Matrix Method**. The credit exposure arising from a derivative transaction under the Conversion Factor Matrix Method shall equal and remain fixed at the potential future credit exposure of the derivative transaction which shall equal the product of the notional amount of the derivative transaction and a fixed multiplicative factor determined by reference to Table 1:

Table 1 – Conversion Factor Matrix for Calculating Potential Future Credit Exposure[1]

Original Maturity[2]	Interest Rate	Foreign Exchange Rate and Gold	Equity	Other[3] (includes commodities and precious metals except gold)
1 year or less	.015	.015	.20	.06
Over 1 to 3 years	.03	.03	.20	.18
Over 3 to 5 years	.06	.06	.20	.30
Over 5 to 10 years	.12	.12	.20	.60
Over 10 years	.30	.30	.20	1.0

(ii) **Current Exposure Method.** The credit exposure arising from a derivative transaction (other than a credit derivative transaction) under the Current Exposure Method shall be calculated pursuant to 12 CFR part 3, Appendix C, Section 32(c)(5), (6) and (7); 12 CFR part 167, Appendix C, Sections 32(c)(5), (6), (7); or 12 CFR part 390, subpart Z, Appendix A, Sections 32(c)(5), (6), (7), as appropriate.

(b) **Credit Derivatives**

(i) **Counterparty Exposure**. Notwithstanding subsection (2)(a) of this rule, a bank that uses the Conversion Factor Matrix Method or Current Exposure Method without entering into an effective margining arrangement as defined in [NEW RULE I] must calculate the counterparty credit exposure arising from the credit derivatives entered by the bank by adding the net notional value of all protection purchased from the counterparty on each reference entity.

(ii) **Reference Entity Exposure.** A bank must calculate the credit exposure to a reference entity arising from credit derivatives entered by the bank by adding the net notional value of all protection sold on the reference entity. However, the bank may reduce its exposure to a reference entity by the amount of any eligible

[1] For an over the counter (OTC) derivative contract with multiple exchanges of principal, the conversion factor is multiplied by the number of remaining payments in the derivative contract.

[2] For an over the counter (OTC) derivative contract that is structured such that on specified dates any outstanding exposure is settled and the terms are reset so that the market value of the contract is zero, the remaining maturity equals the time until the next reset date. For an interest rate derivative contract with a remaining maturity of greater than one year that meets these criteria, the minimum conversion factor is 0.005.

[3] Transactions not explicitly covered by any other column in the Table are to be treated as "Other".

credit derivative purchased on that reference entity from an eligible protection provider.

(c) **Special Rule for Central Counterparties**. In addition to amounts calculated under previous subsections of this rule, the measure of counterparty exposure to a central counterparty must include the sum of the initial margin posted by the bank plus any contributions made by it to a guaranty fund at the time such contribution is made.

(d) **Mandatory or Alternative Method**. The department may, in its discretion, require or permit a bank to use a specific method or methods set forth in this rule to calculate the credit exposure arising from all derivative transactions or any specific derivative transaction or type or category of derivative transactions if it finds, in its discretion, that such method is consistent with the safety and soundness of the bank.

(2) **Securities financing transactions**. (a) In general, a bank must calculate the credit exposure arising from a securities financing transaction by one of the methods in this subsection appropriate to the transaction. Except as provided by subsection (d), a bank must use the same method for calculating credit exposure arising from all of its securities financing transactions.

(b) **Basic Method**. A bank may calculate the credit exposure of a securities financing transaction as follows:

(i) **Repurchase agreement**. The credit exposure arising from a repurchase agreement shall equal and remain fixed at the market value at execution of the transaction of the securities transferred to the other party less cash received.

(ii) **Securities Lending Transaction**.

(A) **Cash collateral transactions**. The credit exposure arising from a securities lending transaction where the collateral is cash shall equal and remain fixed at the market value at execution of the transaction of securities transferred less cash received.

(B) **Non-cash collateral transactions**. The credit exposure arising from a securities lending transaction where the collateral is other securities shall equal and remain fixed as the product of the higher of the two haircuts associated with the two securities, as determined in Table 2 below, and the higher of the two par values of the securities. Where more than one security is provided as collateral, the applicable haircut is the higher of the haircut associated with the security lent and the notional-weighted average of the haircuts associated with the securities provided as collateral.

(iii) **Reverse repurchase agreement.** The credit exposure arising from a reverse repurchase agreement shall equal and remain fixed as the product of the haircut associated with the collateral received, as determined in Table 2 below, and the amount of cash transferred.

(iv) **Securities Borrowing Transaction**.

(A) Cash collateral transactions. The credit exposure arising from a securities borrowed transaction where the collateral is cash shall equal and remain fixed as the product of the haircut on the collateral received, as determined in Table 2 below, and the amount of cash transferred to the other party.

(B) Non-cash collateral transactions. The credit exposure arising from a securities borrowed transaction where the collateral is other securities shall equal and remain fixed as the product of the higher of the two haircuts associated with the two securities, as determined in Table 2 below, and the higher of the two par values of the securities. Where more than one security is provided as collateral, the applicable haircut is the higher of the haircut associated with the security lent and the notional-weighted average of the haircuts associated with the securities provided as collateral.

TABLE 2 – COLLATERAL HAIRCUTS

	Residual Maturity	Haircut without currency mismatch[4]
Sovereign Entities		
OECD Country Risk Classification[5] 0-1	< = 1 year > 1 year, < = 5 years > 5 years	0.005 0.02 0.04
OECD Country Risk Classification 2-3	< = 1 year >1 year , < = 5 years > 5 years	0.01 0.03 0.06
CORPORATE AND MUNICIPAL BONDS THAT ARE BANK-ELIGIBLE INVESTMENTS		
All	< = 1 year	0.02
All	> 1 year, < = 5 years	0.06
All	> 5 years	0.12
OTHER ELIGIBLE COLLATERAL		
Main index[6] equities (including convertible bonds)		0.15
Other publicly traded equities (including convertible bonds)		0.25
Mutual funds		Highest haircut applicable to any security in

[4] In cases where the currency denomination of the collateral differs from the currency denomination of the credit transaction, an additional 8 percent haircut will apply.

[5] OECD Country Risk Classification means the country risk classification as defined in Article 25 of the OECD's February 2011 Arrangement on Officially Supported Export Credit Arrangement.

[6] Main index means the Standard & Poor's 500 Index, the FTSE All-World Index, and any other index for which the covered company can demonstrate to the satisfaction of the Federal Reserve that the equities represented in the index have comparable liquidity, depth of market, and size of bid-ask spreads as equities in the Standard & Poor's 500 Index and FTSE All-World Index.

Cash collateral held	which the fund can invest 0

(c) **Basel Collateral Haircut Method**: A bank may calculate the credit exposure of a securities financing transaction pursuant to 12 CFR part 3, Appendix C, Sections (32)(b)(2)(i) and (ii); 12 CFR part 167, Appendix C, Sections32(b)(2)(i) and (ii); or 12 CFR part 390, subpart Z, Appendix A, Sections 32(b)(2)(i) and (ii), as appropriate.

(d) **Mandatory or Alternative Method**. The department may, in its discretion, require or permit a bank to use a specific method or methods set forth in this subsection (3) to calculate the credit exposure arising from all securities financing transactions or any specific, or category of, securities financing transactions if it finds, in its discretion, that such method is consistent with the safety and soundness of the bank.

(3) Banks that hold government securities in a fiduciary capacity for customers in conjunction with a repurchase agreement must comply with FDIC regulations, 12 CFR Part 344, including but not limited to record keeping, confirmations, and having written policies and procedures. Custodial holdings of government securities are subject to examination by the department for compliance with fiduciary requirements. Banks must adopt policies applying to custodial holdings of government securities, all of the requirements imposed by their appropriate federal regulator that are applicable to government securities held in a fiduciary capacity.